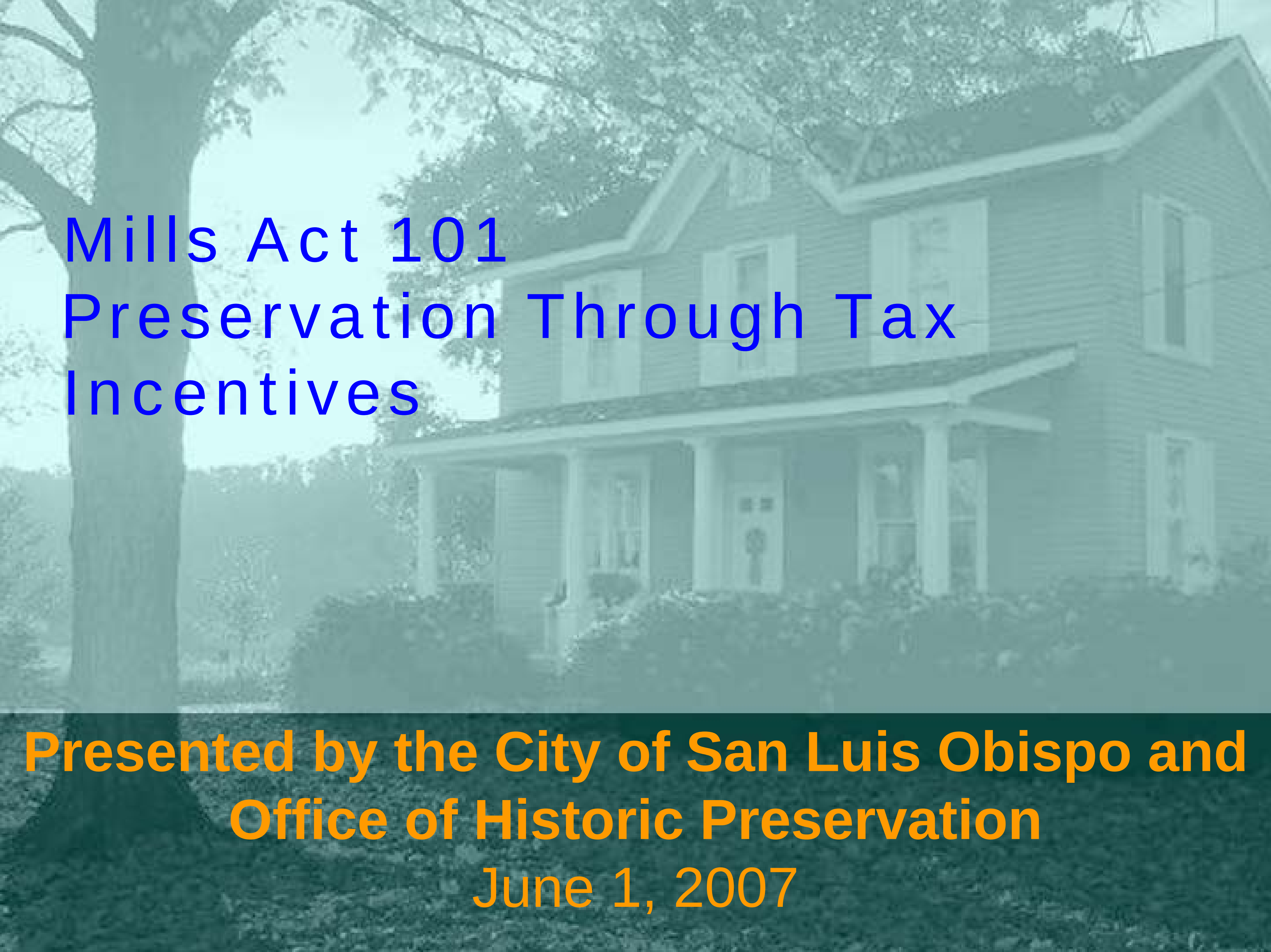


Mills Act 101
Preservation Through Tax Incentives

Presented by the City of San Luis Obispo and Office of Historic Preservation

June 1, 2007

What is the Mills Act?

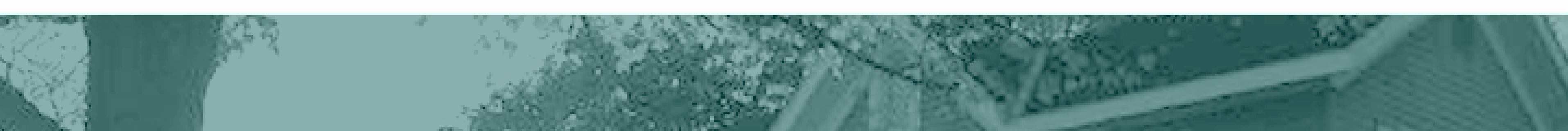
- A local property tax incentive to encourage restoration, rehabilitation and preservation of privately owned historic resources.
- A historic preservation tool to revitalize historic residential neighborhoods and commercial districts.
- Program designed and administered by the city with help from the assessor. No state government oversight.

State's role in Mills Act

- No state oversight. Authority rests with cities and counties. Disputes handled by courts.
- Office of Historic Preservation advises and consults with property owners and local governments; serves as clearinghouse of information.
- Board of Equalization advises and interprets for County Assessors.

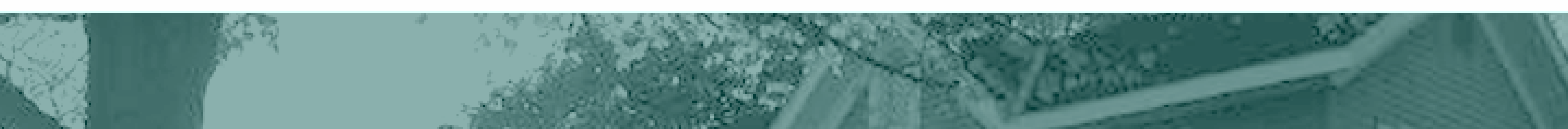
Benefits to Property Owner

- Incentive to keep historic property rather than develop or sell.
- Only financial incentive available to historic homeowners in California.
- For commercial owners, can be packaged with other incentives.
- Tax benefit runs with title – a selling point.
- Accepting tax benefit is voluntary.
- Tax benefit is indefinite.



Benefits to Local Government

- Helps retain and maintain historic properties.
- Can foster preservation of historic neighborhoods.
- Incentive can help revitalize downtown commercial districts.
- Can preserve historic fabric of community, boost cultural tourism and increase civic pride.



More Benefits to Local Government

- Program is flexible. Can be designed to target specific resources.
- City controls number of contracts, property values that can be included. This allows cities to cap revenue loses.

Addressing cost- lost revenue

- Lost revenue is property tax, often a small portion of city revenue stream.
- Fees can offset administrative costs.
- Mills Act investment can generate positive economics increasing property values and promoting businesses growth.

How Does Mills Act Work?

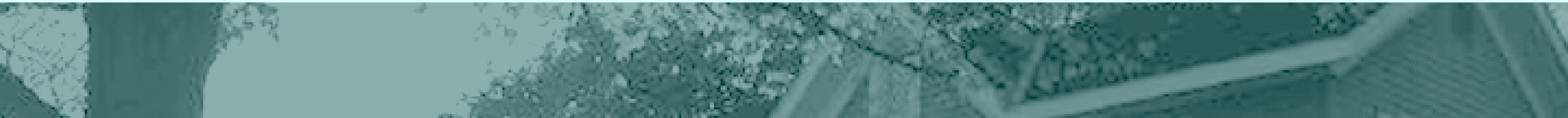
- Cities may enter into a contract with property owner. In exchange for tax relief owners agree to restore or maintain historic property in accordance with federal, state and local standards.

Mills Act Framework

- Properties must be on a local, state, or national register of historic places or contribute to a national historic district. Cites can narrow that definition.
- Properties must be privately owned and subject to property tax.
- Contracts are 10 years minimum. Contracts extend one year annually unless either party chooses not to renew.

Mills Act Framework, Cont'd.

- Local government administers program. Local government controls application process and does annual inspections.
- Contract specifies what maintenance or rehabilitation is to be done.
- Property must be restored and maintained in manner compatible with its architecture and uses and original fabric retained where feasible. Federal and local standards apply.



Mills Act Framework, Cont'd.

- Local government can enforce a contract by judicial means. If that fails a contract can be cancelled for breech and after a hearing. There is a penalty of 12 ½ percent of value of property for owners whose contract is cancelled, paid to State.
- Assessor calculates Mills Act tax assessment annually.

Mills Act History

- 1972 – Sen. John Mills authors “Mills Act” in response to plight of Coronado Hotel in San Diego.
- 1973 – Law determined unconstitutional.
- 1976 – Voters approve constitutional amendment.

Mills Act History, Continued

- **1985 - Mills Act amended to reduce minimum contract period, eliminate visibility to public and public access and reduce penalty for cancellation.**

- **1993 – Act amended to define restoration and rehabilitation as meeting the standards of the OHP, State Historic Building Code and Secretary of Interior's Standards**

Mills Act Participation

- 85 Mills Act cities in California.
- More than 2,375 contracts.
- Three cities added program in 2006.
- At least four cities considering now.
- Interest growing rapidly as property values soar and resources are lost.

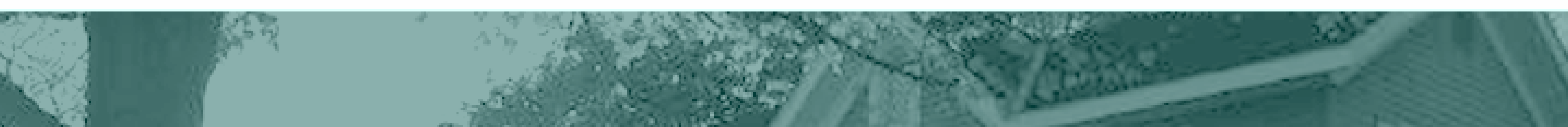
Mills Act Mathematics

- “Income” or capitalization formula used.
- Can result in tax savings of 50 percent or more.
- Formula complex.
- Only assessor can calculate actual savings.
- Assessor determines key elements.

Basic Formula:

Single-family Owner-Occupied Home

Gross income (fair rent)	
$1,500 per month x 12 months	$18,000
Less anticipated vacancy and collection loss	
$18,000 x 5 percent	-900
Effective gross income	$17,100



Basic Formula:

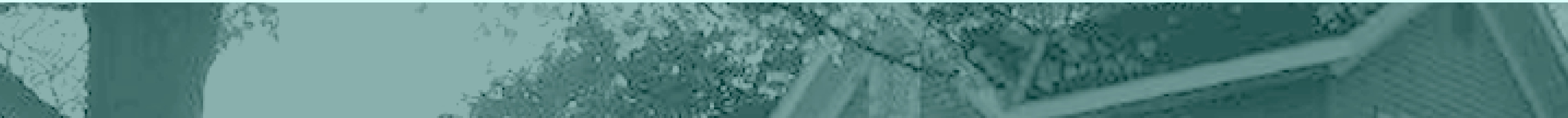
Single-family Owner-Occupied Home

Maintenance costs

Operating expenses	$600	
Grounds maintenance	$400	
Fire Insurance	$360	
Management fee	$360	
Water and Garbage	$240	
Building maintenance	$500	$2,100

Net Operating Income

$17,100- $2,100 = $15,000



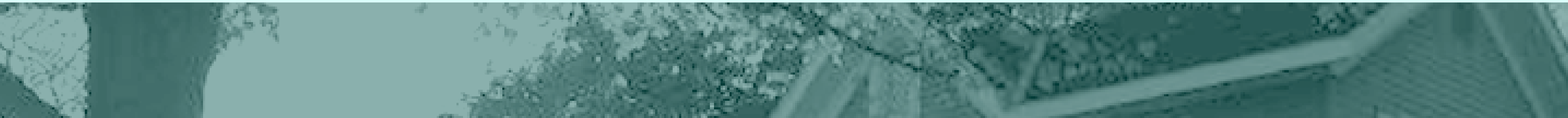
Basic Formula:

Single-family Owner-Occupied Home

Restricted Capitalization rate

Rate Components

Interest Rate	.080	
Risk	.040	
Property tax (basic tax plus any special taxes for district)	.015	
Amortization rate* (50-year remaining life; improvements 70 % of total property value .02 x .70	.014	.149
Restricted value $15,000 / .149		= $100,671



Basic Formula:

Single-family Owner-Occupied Home

Tax Value - Three way comparison

Restricted value

$100,671 x .015 = **$1,510**

Factored base year value (prior change in ownership)

$357,000 x .015 = $5,355

Current market value (based on comparable sales)

$450,000 x .015 = $6,750

Potential Tax Savings $5,240

Basic Formula:

Commercial Property

Gross income (fair rent)

140,000 sq. feet @ $1.75/sf – 245,000

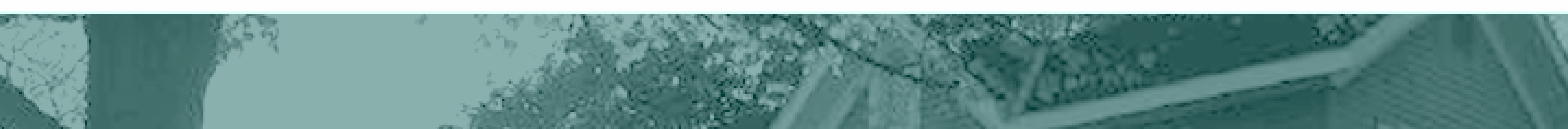
X 12 months = $2,940,000

Less anticipated vacancy

and collection loss

$2,940,000 x 5 percent -147,000

Effective gross income $2,793,000



Basic Formula:

Commercial Property

Maintenance costs

Operating expenses	$140,000	
Insurance	$75,000	
Management fee	$290,000	
Utilities	$360,000	
Building maintenance	$95,000	-960,000

- *Net Operating Income*

  $2,793,000 - *$960,00* = *$1,833,00*

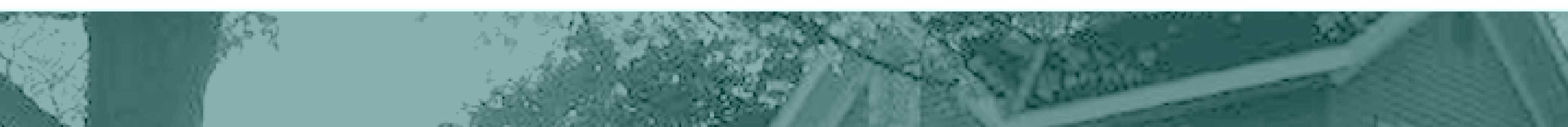
Basic Formula:

Commercial Property

Restricted Capitalization rate

Rate Components

Interest Rate	.080	
Risk	.020	
Property tax (basic tax plus any special taxes for district)	.011	
Amortization rate (50-year remaining life; improvements 75 % of total property value .02 x .75	.015	.126
Restricted value		
$1,833,000 / .126		= $14,547,619



Basic Formula:

Commercial Property

Tax Value - Three way comparison

Restricted value

$14,547,619 x .011 = $**160,024**

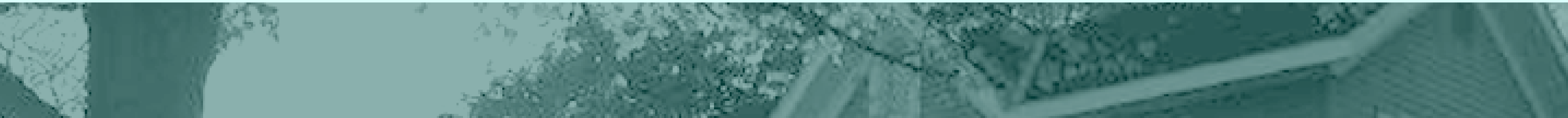
Factored base year value (prior change in ownership)

$18,181,077 x .011 = $199,992

Current market value (based on comparable sales)

$21,000,000 x .011 = $231,000

Potential Tax Savings $71,000



Where Mills Act Formula components come from

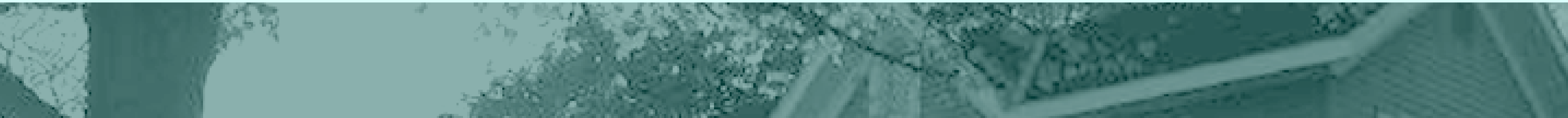
Gross income (fair rent) - *Determined by assessor.*

Maintenance costs - *Determined by assessor, based on information provided by property owner.*

Interest Rate - *Determined annually by Board of Equalization as of the preceding December.*

Risk – *Set by Mills Act statute (4% residential, 2% commercial)*

Amortization rate – *Determined by assessor.*



Non-renewal

- Once either party notifies the other of a non-renewal the tax benefit reduces by about 1/10 annually. By year 10, the property owner should be paying the same tax they would have paid before the Mills Act.

Implementing a Mills Act Program: Choices are city's

- Can be formal ordinance or less formal resolution.
- Can target certain properties by limiting what qualifies.
- Can choose level of enforcement.

Ordinance approach

- Spells out Mills Act in Historic Preservation Ordinance.
- More structured approach, less flexible.

Resolution Approach

- Council approves program. Delegates to staff administer.
- Council approves final contracts.
- Approved Council resolution forwarded to County to initiate program.

Work in Advance With Assessor

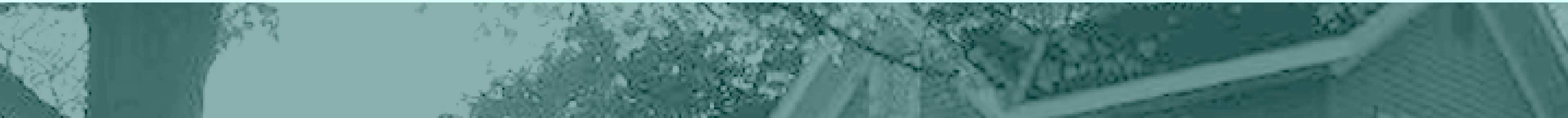
- Mills Act may be new to assessor.
- Assessor needs lead time to prepare tax assessment.
- Assessor must keep information up to date.
- Get political buyoff.

Sell Community on Mills Act

- Hold Informational meetings.
- Be ready for tax reduction opponents.
- Address perceptions.
- Work with other government agencies that share property tax revenue. Schools redevelopment agencies especially sensitive.

Mills Act Quirks

- Longtime owners (pre-1985) may not benefit.
- Law does not address multiple owners.
- Surprise increases if assessors don’t keep up on data.
- Government owner/developer lease deals addressed by law.
- Tax benefits may take effect in year following approval of Mills Act contract.



Summary of Mills Act Pros

- Only incentive available to historic home owners.
- Can be used with other commercial property preservation incentives.
- Tax incentive especially helpful to recent buyers.

Summary of Pros Pros

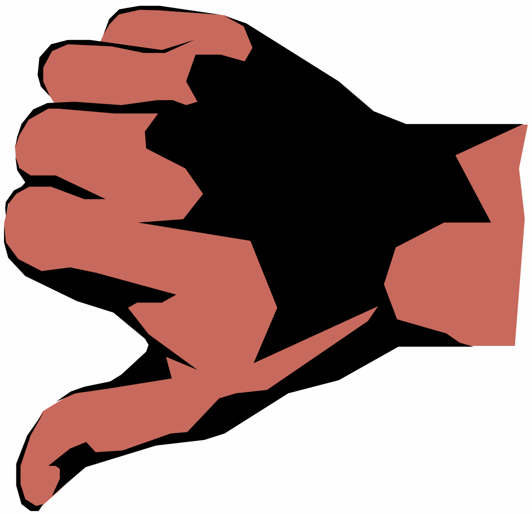
- Mills Act contract goes with title - a selling point.
- Program permissive, city can craft to its needs.
- Contracts don’t have to be renewed if city/owner needs change.
- Fees can offset program costs.
- Can encourage owners to seek historic designation.

Yet more Pros

- Can help revitalize, maintain historic civic cores.
- Helps keep up historic neighborhoods.
- Boosts civic pride.
- Helps retain civic history, character.

Mills Act Cons

- Lost tax revenue.
- Program costs.
- Lost revenue to other agencies.
- Not much benefit to longtime owners.
- Perception issues.



Note:
There are More Pros than Cons

Questions/Contact Information

– Jeff Hook, Senior Planner AICP (805) 781-7176 or www.jhook@slocity.org

– Lucinda Woodward, OHP Mills Act contact, (916)653-9116 or lwoodward@parks.ca.gov

– Lisa Gofourth, SLO County Assessor's Office, (805) 781-5643

Handouts

- Mills Act Statute (Government Code and Tax and Revenue Code)
- Example of council resolutions
- Examples of Mills Act contract
- Secretary of the Interior's Standards

PowerPoint created by Dennis Weber, OHP and Jeff Hook, City of San Luis Obispo

Mills Act 101

City of San Luis Obispo

Office of Historic Preservation